

PROPERTY TAX APPEAL BOARD'S DECISION

APPELLANT: Illinois Casualty Company
DOCKET NO.: 05-00424.001-C-2
PARCEL NO.: 09/7703

The parties of record before the Property Tax Appeal Board are Illinois Casualty Company, the appellant, by attorneys Richard W. McCarthy and John S. Callas of McCarthy, Callas, Fuhr & Ellison, P.C., in Rock Island, and the Rock Island County Board of Review.

The subject property consists of a 20,333 square foot parcel improved with a three-story, masonry-constructed office building that was built in 2003 and contains 24,045 square feet of building area. The site includes a small asphalt parking lot with 9 striped spaces. The subject is located in the city of Rock Island, Rock Island Township, Rock Island County.

Through its attorney, the appellant appeared before the Property Tax Appeal Board claiming overvaluation of the subject property as the basis of the appeal. In support of this argument, the appellant submitted an appraisal of the subject with an effective date of January 1, 2005. The appraiser, who was present at the hearing and provided testimony regarding his preparation of the appraisal report, utilized all three traditional approaches in estimating a value for the subject of \$2,350,000.

In the cost approach, the appraiser described the subject's improvements as containing 9,263 square feet on floors 1 and 2, and 5,520 on level three, which also contains a mechanical equipment mezzanine, a storage area and an outside patio on one side. The building was designed and built for its owner/occupant, an insurance company, and features a steel frame on a slab foundation, a fire alarm and sprinkler system and is described as containing good quality components. The appraiser opined that any change in use to multi-tenant occupancy would require significant remodeling.

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Based on the facts and exhibits presented, the Property Tax Appeal Board hereby finds a reduction in the assessment of the property as established by the Rock Island County Board of Review is warranted. The correct assessed valuation of the property is:

LAND:	\$	17,000
IMPR.:	\$	765,785
TOTAL:	\$	782,785

Subject only to the State multiplier as applicable.

In determining a value for the subject site, the appraiser examined three comparable sales located in Rock Island. The comparables range in size from 1,625 to 13,255 square feet and sold between August 2001 and May 2004 for prices ranging from \$3,800 to \$35,000 or from \$1.74 to \$3.93 per square foot. The appraiser noted all three sales are smaller than the subject, but that he had no evidence with which to make size adjustments to the comparables. The appraiser opined the subject site, as if vacant, has a value of \$2.50 per square foot, or \$51,000, rounded. The appraiser concluded the subject site has inadequate parking. He noted the appellant also owns another parcel across the street from the subject, whose assessment is not contested. This parcel provides additional paved parking for the appellant's use.

In valuing the subject's improvements, the appraiser used the Marshall & Swift Commercial Estimator to generate a replacement cost of \$3,161,711. He estimated the subject has a building life of 65 years and an effective age of two years. Using the straight line method, the appraiser estimated the subject has suffered physical depreciation of \$97,000. The appraiser concluded significant functional and external obsolescence exists because rents and sales prices in the subject's neighborhood do not support above average construction like the subject. Many buildings in the area remain vacant, due to an oversupply of office space. The appraiser determined downtown Rock Island has experienced an exodus of businesses to outlying areas and a declining population, similar to that experienced by nearby Moline, Illinois and Davenport, Iowa, which is across the Mississippi River from Rock Island. The appraiser stated the subject is located on the eastern edge of downtown Rock Island and a development group is attempting to draw more businesses to downtown by rehabilitating several buildings. For these reasons, the appraiser concluded the subject suffers functional and external obsolescence of 25% or \$766,000. After subtracting the physical depreciation of \$97,000 and the functional obsolescence of \$766,000, and adding back the land value of \$51,000, the appraiser estimated a value for the subject by the cost approach of \$2,350,000.

In the sales comparison approach, the appraiser examined sales of five comparable properties. The comparable sites range in size from 19,200 square feet to 6.39 acres and are improved with two-story masonry office buildings that range in size from 6,400 to 75,854 square feet of building area and range in age from 4 years to 100 years, although the latter building was extensively remodeled and has an effective age of 20 years. The properties sold between September 2001 and June 2005 for prices ranging from \$570,000 to \$10,402,049. The appraiser made various adjustments to the comparables for market conditions, site improvements and

parking availability, location and age/condition/quality. After adjustments, the comparables had adjusted sales prices ranging from \$96.50 to \$102.34 per square feet of building area including land and indicated values for the subject ranging from \$2,320,000 to \$2,461,000. The appraiser explained the bases for his adjustments, including a discussion of how he accounted for the subject's inadequate parking. Based on this analysis, the appraiser estimated a value for the subject by the sales comparison approach of \$2,400,000.

In the income approach, the appraiser examined lease rates of three comparable properties located in Rock Island and Moline, Illinois and Davenport, Iowa, and four rental offerings. The comparables contain from 3,395 to 40,800 square feet of rentable area and have either net rents or rental offerings ranging from \$8.50 to \$14.00 per square foot. Three of the offerings located in Rock Island have had little or no space rented in a year or more. Based on his analysis of these rental comparables and rental offerings, the appraiser concluded a rental rate for the subject of \$12.00 per square foot was appropriate, with the tenant paying all expenses but repairs to the bone-structure of the building. After applying this rate to the subject's 24,045 square feet, the appraiser determined a net rent for the subject of \$288,500, which was reduced by 15%, or \$43,000, for vacancy and collection loss, resulting in an effective net rent of \$245,500. The appraiser then reduced this net rent by \$15,000 to account for the subject's inadequate parking, leaving a net income of \$230,500. He divided the net income by an overall rate of 10%, which resulted in an indicated value for the subject by the income approach of \$2,305,000.

In his reconciliation and final value estimate, the appraiser noted only two of the five comparable sales are of office buildings less than 8 years old. Because the subject is and likely will remain owner-occupied, the appraiser opined the sales comparison approach is valid and would be used by market participants and appraisers. The cost approach relies on a cost service and historical evidence, with some support for a land value from land sales in the subject's neighborhood. The subject is relatively new and a reliable cost manual was used to value the improvements. The income approach has some applicability because the subject could rent to a single-user. This approach highlights the oversupply of office space in the local market. The appraiser relied most heavily on the cost approach of \$2,350,000, which is bracketed by the sales comparison and income approaches. Finally, the appraiser estimated a marketing time for the subject of 1 to 3 years. The appraiser testified his estimate of value did not include an adjustment for his estimated marketing time.

During cross-examination, the appraiser acknowledged the subject was not a typical office building, was specifically designed and built for the appellant and would require significant remodeling for use by multiple tenants. When asked by the board of review's representative why he depreciated the subject by 25% for functional and external obsolescence, the appraiser responded that other sales and rents in the subject's neighborhood do not support above-average construction. The appraiser acknowledged he has an SRA, or Senior Residential Appraiser, designation, but that much of his work in the last 4 to 5 years has been commercial. The appraiser testified he has successfully taken the exam and completed course work for the MAI, or Master of the Appraisal Institute, designation.

The board of review's representative then questioned the president of Illinois Casualty Company, Mr. John Klockau. The witness acknowledged the land on which the subject building sits was sold to the appellant for \$1.00. Some tax incentives involving sales tax on materials used to construct the subject building were also involved in the tax increment financing district in which the subject resides. The witness also acknowledged the total cost of constructing the subject building was around \$4,000,000.

The board of review submitted its "Board of Review Notes on Appeal" wherein the subject's total assessment of \$905,409 was disclosed. The subject has an estimated market value of \$2,718,130 or \$113.04 per square foot of living area including land, as reflected by its assessment and Rock Island County's 2005 three-year median level of assessments of 33.31%.

In support of the subject's estimated market value, the board of review submitted the subject's property record card and a brief appraisal analysis of the subject prepared by Robert Brown, Deputy Assessor of Rock Island Township. The deputy assessor prepared a limited cost approach, in which he estimated a cost new for the subject building at \$3,162,000. He did not indicate the source of his cost new estimate. The deputy assessor allowed 3%, or \$97,000, for physical depreciation and 10%, or \$306,714, for functional and external obsolescence. To the subtotal of \$2,760,426, the deputy assessor added a land value of \$60,999, resulting in an indicated value for the subject by the cost approach of \$2,821,425. He did not indicate how he determined the land value. The witness testified the cost approach is most appropriate in valuing new buildings like the subject. He also testified his allowance of 10% for functional and external obsolescence was very generous.

Regarding the sales comparison approach, the deputy assessor stated it is difficult to find sales of buildings of the

subject's quality. The deputy assessor testified the comparables used by the appellant's appraiser should not be given much weight, as they are not very similar to the subject, in his opinion. The deputy assessor submitted no comparables in support of the subject's assessment, but acknowledged the appellant's appraiser's comparable sale 3 is most similar to the subject's market appeal and location.

Regarding the income approach, the deputy assessor assumed a net rent for the subject of \$14.00 per square foot, which generates \$336,630 in gross rent. He then deducted 15%, or \$50,495 for vacancy and collection loss, resulting in effective net rent of \$286,135. The deputy assessor allowed the appellant's appraiser's estimate of obsolescence due to lack of parking of \$15,000, leaving a net income of \$271,135. The witness divided this net income by an overall rate of 9.0%, resulting in an estimated value for the subject by the income approach of \$3,012,611. The deputy assessor did not explain how he arrived at a rent of \$14.00 per square foot for the subject, nor did he submit any supporting documentation for his capitalization rate of 9.0%.

In summary, the deputy assessor reiterated that the cost approach is the most appropriate method for valuing a new building like the subject.

During cross-examination, the appellant's attorney questioned the deputy assessor regarding his qualifications. The witness responded that, while he is not a licensed appraiser, he is certified with the IAAO, the International Association of Assessing Officers. In response to a question by the appellant's attorney about his reliance on the cost approach, the witness testified it is difficult to employ the principal of substitution as it relates to the income approach or sales comparison approach. The witness acknowledged the subject contains "a number of amenities to that building that are specifically valuable to the tenant today." (Tr. 39)

After hearing the testimony and considering the evidence, the Property Tax Appeal Board finds that it has jurisdiction over the parties and the subject matter of this appeal. The Board further finds a reduction in the subject property's assessment is warranted. The appellant contends the market value of the subject property is not accurately reflected in its assessed valuation. When market value is the basis of the appeal the value of the property must be proved by a preponderance of the evidence. National City Bank of Michigan/Illinois v. Illinois Property Tax Appeal Board, 331 Ill.App.3d 1038 (3rd Dist. 2002). The Board finds the appellant met this burden of proof and a reduction in the subject's assessment is warranted

The Board finds the appellant submitted an appraisal of the subject property wherein the appraiser utilized all three traditional approaches in estimating the subject's market value at \$2,350,000. The appraiser was present at the hearing to provide testimony regarding his methodology and to be cross-examined.

In his cost approach, the appellant's appraiser estimated a replacement cost for the subject of \$3,162,000, rounded. The Board finds the deputy assessor accepted this estimate in his own abbreviated cost analysis. While the appellant's appraiser determined that an allowance for functional and external obsolescence of 25% was appropriate to account for the subject's superior quality of construction when compared to other buildings in downtown Rock Island, the deputy assessor claimed 10% was a more reasonable figure. However, the Board finds the deputy assessor acknowledged in his testimony that the subject contains "a number of amenities to that building that are specifically valuable to the tenant today." The Board finds that the parties are in agreement that the subject building was designed and constructed according to the appellant's wishes. The Board finds the appellant's appraiser concluded significant functional and external obsolescence exists because rents and sales prices in the subject's neighborhood do not support above average construction like the subject. He claimed many buildings in downtown Rock Island remain vacant, due to an oversupply of office space. The appraiser determined the Rock Island has experienced an exodus of businesses to outlying areas and a declining population, similar to that experienced by nearby Moline, Illinois and Davenport, Iowa, which is across the Mississippi River from Rock Island. The Board finds the deputy assessor disputed the appraiser's claim, but did not effectively refute the appraiser's testimony.

Regarding the sales comparison approach, the Board finds the appellant's appraiser examined sales of five comparable properties. After adjustments, the comparables had adjusted sales prices ranging from \$96.50 to \$102.34 per square foot of building area including land. The subject has an estimated market value of \$2,718,130 or \$113.04 per square foot of living area including land, as reflected by its assessment, which is above the range of the only comparable sales in the record. The deputy township assessor testified these comparables are dissimilar to the subject. However, the board of review failed to submit any comparable sales of its own in support of the subject's assessment. The Board finds the courts have stated that where there is credible evidence of comparable sales, these sales are to be given significant weight as evidence of market value. In Chrysler Corporation v. Property Tax Appeal Board, 69

Ill.App3d 207 (1979), the court held that significant relevance should not be placed on the cost approach or income approach especially when there is market data available.

Regarding the income approach, the Board finds the appellant's appraiser examined lease rates of three comparable properties located in Rock Island and Moline, Illinois and Davenport, Iowa, and four rental offerings. The comparables have either net rents or rental offerings ranging from \$8.50 to \$14.00 per square foot. Three of the offerings located in Rock Island have had little or no space rented in a year or more. Based on his analysis of these rental comparables and rental offerings, the appraiser concluded a rental rate for the subject of \$12.00 per square foot was appropriate. The board of review's analysis also included a very brief income capitalization approach with no rental comparables or other support from the market for the estimated rent for the subject of \$14.00 per square foot used by the deputy assessor in his analysis.

Based on the foregoing analysis, the Property Tax Appeal Board finds the best evidence of the subject's market value is found in the appraisal submitted by the appellant, wherein the appraiser estimated the subject's market value at \$2,350,000. The Board finds the appellant, through the supporting documentation and testimony of its appraiser, adequately demonstrated the subject's market value as reflected by its assessment is excessive. The Board finds the abbreviated appraisal analysis and testimony offered by the board of review is insufficient to support the subject's assessment and does not overcome the appraisal submitted by the appellant. Therefore, the Property Tax Appeal Board finds the subject had a market value as of January 1, 2005 of \$2,350,000. Since market value has been established, the 2005 three-year median level of assessments for Rock Island County of 33.31% shall apply.

This is a final administrative decision of the Property Tax Appeal Board which is subject to review in the Circuit Court or Appellate Court under the provisions of the Administrative Review Law (735 ILCS 5/3-101 et seq.) and section 16-195 of the Property Tax Code.



Chairman



Member



Member



Member

Member

DISSENTING: _____

C E R T I F I C A T I O N

As Clerk of the Illinois Property Tax Appeal Board and the keeper of the Records thereof, I do hereby certify that the foregoing is a true, full and complete Final Administrative Decision of the Illinois Property Tax Appeal Board issued this date in the above entitled appeal, now of record in this said office.

Date: April 1, 2008



Clerk of the Property Tax Appeal Board

IMPORTANT NOTICE

Section 16-185 of the Property Tax Code provides in part:

"If the Property Tax Appeal Board renders a decision lowering the assessment of a particular parcel after the deadline for filing complaints with the Board of Review or after adjournment of the session of the Board of Review at which assessments for the subsequent year are being considered, the taxpayer may, within 30 days after the date of written notice of the Property Tax Appeal Board's decision, appeal the assessment for the subsequent year directly to the Property Tax Appeal Board."

In order to comply with the above provision, YOU MUST FILE A PETITION AND EVIDENCE WITH THE PROPERTY TAX APPEAL BOARD WITHIN 30 DAYS OF THE DATE OF THE ENCLOSED DECISION IN ORDER TO APPEAL THE ASSESSMENT OF THE PROPERTY FOR THE SUBSEQUENT YEAR.

Based upon the issuance of a lowered assessment by the Property Tax Appeal Board, the refund of paid property taxes is the responsibility of your County Treasurer. Please contact that office with any questions you may have regarding the refund of paid property taxes.